

G-002/M-88-254APPROVING AND REVISING CIP PROJECT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of the Implementation of an
Energy Conservation Improvement Program
for Northern States Power Company Gas
Utility

ISSUE DATE: December 30, 1988

DOCKET NO. G-002/M-88-254

ORDER APPROVING AND REVISING CIP
PROJECT

PROCEDURAL HISTORY

On October 3, 1988, the Minnesota Public Utilities Commission (the Commission) issued its ORDER APPROVING CONSERVATION IMPROVEMENT PROGRAM, REQUIRING ADDITIONAL FILINGS, AND REQUIRING ADDITIONAL PROJECTS in this matter. The Commission ordered Northern States Power Company's Gas Utility (NSP or the Company), the Energy Resource Center (ERC), and other interested parties to work with Commission staff to present more detailed project information, funding proposals, and budgets for those Conservation Improvement Program (CIP) projects that the ERC would administer.

On October 18, 1988, NSP and the ERC filed information on the Furnace Deferred Loans Project. On November 2, 1988, the Department of Public Service (DPS or the Department) filed comments on this information. On November 18, 1988, NSP and the ERC responded to a Commission staff information request and provided detail regarding the ERC's other projects and budgets.

Since the October 3, 1988 Order, NSP, the ERC, and the City of St. Paul have met with Commission staff to address the Commission's concerns.

The Commission met on December 14, 1988 to consider this matter.

BACKGROUND

The ERC was created in 1981 as a public-private partnership by the City of St. Paul (City) and NSP to provide innovative energy financing and outreach service to NSP natural gas customers in St. Paul and surrounding communities. The ERC coordinates and administers financing programs available from the Minnesota Housing Finance Agency, the federal government, other governmental units, and private foundations.

The ERC works with gas customers in the Single Family Loan Project, Multifamily Conservation Service Project, Furnace Repair Deferred Loans Project, and Technical and Information Referral Services.

FINDINGS AND CONCLUSIONS

The Commission must decide what level of funding is reasonable for the ERC and how that funding is appropriated and used.

OVERALL FUNDING LEVEL

The Commission will approve NSP funding the ERC for \$249,440 as part of NSP's CIP. This is approximately \$85,000 more than has been approved for the past CIP year. A number of factors contribute to the higher level approved here.

In the October 3, 1988 Order, the Commission approved a new project, the Furnace Deferred Loan Project which accounts for \$30,000 of the increase. The remainder of the increase is due to the withdrawal of other funding sources.

Excepting the one new project, it is clear that the ERC will need a higher level of CIP funding simply to maintain its current level of conservation. Without sufficient funding from NSP, the ERC would have to severely cut back its services or, perhaps, even cease to operate. The Commission is concerned with this situation. The Commission will approve the increased funding level for several reasons. First, the ERC has effectively delivered conservation projects in the past. The Commission is concerned that changes in funding may effect the delivery of these projects. To ensure that NSP's 1988-1989 CIP projects are offered and delivered, the Commission will approve the funding increase. However, the Commission will require the ERC and NSP to file detailed financial information regarding expenditures and funding sources.

Second, the ERC's projects encourage and enable consumers to make conservation improvements out of personal funds. This has the potential of saving more Ccf per CIP dollar than other CIP projects.

Third, the ERC provides most of NSP's CIP projects which are available to residential ratepayers in general, rather than low-income customers exclusively.

Finally, the Commission notes that the City has withdrawn significant financial support from the ERC. This is largely responsible for the ERC's increased funding needs. The Commission will order NSP to report on the City's changing role in the ERC's CIP programs.

The ERC will administer the following projects which were described in detail in the Commission's October 3, 1988 Order: the Single Family Loan Project, the Multifamily Services Project, the Furnace Deferred Loans Project, and the Technical and Information Services Project.

The Commission will approve the following amounts for NSP's 1988-1989 CIP funding of the ERC:

<u>Project</u>	<u>Activity</u>	<u>Unit Cost</u>	<u>Total</u>
Single Family Loan	384 loans	\$ 166.43	\$ 63,910
Multifamily Services	150 loans	485.10	72,764
	80 audits	229.25	18,340
	25 contracts	321.20	8,030
Furnace Deferred Loans	16 loans	1,990.00	31,840
Technical and Information Services			<u>54,556</u>
TOTAL			\$249,440

The Commission will also require NSP to file status reports on the ERC's projects, a report on the role of the City in administering CIP funds, and a report on the future funding of the ERC.

PERFORMANCE-BASED FUNDING

In its January 5 Order approving NSP's 1987-1988 CIP, the Commission directed the Company to negotiate a performance-based funding system with the ERC and submit it in the Company's May 1, 1988 CIP filing. NSP failed to comply with this Order; it filed the ERC project on a lump-sum basis.

Commission staff worked with NSP, the ERC, and the City of St. Paul to design a performance-based funding system which takes the amount of money allocated to a project and divides it by the project's goals. The system is reflected in the budget amounts listed above.

The Commission believes that performance-based funding provides incentives for improved performance. Further, it allows the Commission to compare the levels of conservation achieved at particular levels of funding.

The Commission notes that the ERC is the only CIP provider which is funded to support an

operating budget. The Commission concludes that if the ERC wants to support its operating budget from CIP funds, it must meet the same performance standards and performance funding as other CIP providers.

NSP's contribution to the ERC's budget is used to pay operating expenses for these projects; the City has proposed to fund the ERC on a quarterly basis for one-quarter of the approved budget. There would be an annual true-up to reimburse NSP to the degree that the ERC did not achieve its goals in loan origination.

The Commission finds that lump-sum quarterly disbursement of funds for loan origination does not track the pay-for-performance system required of other CIP providers. The Commission fails to see why the ERC should be treated differently. The Commission will order that all ERC projects with the exception of the Technical and Informational Services project be funded on a reimbursement-for-activity basis. The Commission recognizes that the Technical and Information Services Project should be treated differently because it cannot be broken into specific activities, such as audits, loans, etc. Instead, it requires that telephones and walk-in stations be staffed when activity occurs.

Regarding the ERC's furnace replacement project, the City proposed to distribute furnace replacement funds to the ERC on a quarterly basis for administrative simplicity. However, in a similar project administered by Ramsey Action Programs (RAP), furnaces are billed directly to NSP when the estimate is selected. RAP receives the exact cost of installing each furnace plus its administrative fee with each furnace installed. The Commission believes that the ERC should be treated in the same manner as RAP for administering an identical project. The Commission will require the ERC to conduct its furnace replacement project on the same basis as RAP, with the replacements billed to the City after the estimate and before replacement.

Furnace Deferred Loan Replacement Project

In its October 3, 1988 Order, the Furnace Replacement Project was approved for 20 furnace replacements at \$1500 per furnace. Later filings by NSP, RAP, and the ERC made it apparent that the \$1500 amount was inaccurate. The ERC now states that for the proposed budget of \$30,000 for this project it could replace approximately 16 furnaces.

The ERC further stated that the proposed budget for this project does not include administrative costs. The ERC proposed to include the project's administrative costs in its budget for the Single Family Loan Project.

The Commission believes that administrative costs should be included within individual projects in order to accurately evaluate the cost-effectiveness of each project.

In its Single Family Loan Project, the ERC proposed an administrative cost of \$165.78 per loan. This figure was calculated by taking the CIP funds needed to operate the project (\$66,310) and dividing them by the expected activity (400) loans, which included the anticipated 16 Furnace Replacement Deferred Loans.

In the Furnace Replacement Deferred Loan Project delivered by RAP, the Commission allowed an administrative cost of \$150 per furnace. The Commission has not been shown any reasonable explanation for the cost difference between the RAP and the ERC projects.

The Commission concludes that it will approve this project at 16 furnaces at an average cost of \$1840 per furnace, plus \$150 per furnace administration fee. The \$150 administration fee per furnace (totalling \$2400) has been removed from the Single Family Loan Project budget and placed in the Furnace Project budget. However, the Commission notes that the ERC's total cost to deliver the 384 remaining Single Family Loans will be \$63,910. Therefore, the cost of delivering each loan appears to have been miscalculated and should actually be \$166.43 per loan.

TECHNICAL RESEARCH PROJECT

Finally, the Commission is aware that the ERC is doing a research project on high efficiency water heater retrofits in multifamily buildings. This project is partially financed by on a grant from the University of Minnesota. The Commission believes that this research project provides support for an existing project and may provide information about new conservation potential and perhaps lead to new project proposals in future CIPs. However, the Commission is concerned that CIP funds may be supporting this research. If so, this is being done without Commission oversight or approval. The Commission will require NSP to file the ERC's Technical Research Project for CIP approval on or before May 1, 1989 or file detailed financial information demonstrating that no CIP monies are being spent on this project.

ORDER

1. NSP's Gas Utility shall fund the ERC for the Single Family Loan Project, the Multifamily Services Project, the Furnace Deferred Loans Project and the Technical and Information Services Project as described above.
2. Within 30 days, NSP shall file a reimbursement plan for the Technical and Information Services Project that appropriates funds on a quarterly basis; reimbursement plans for the Single Family Loan Project and the Multifamily Services Project that appropriate funds on a pay-for-performance basis; and a reimbursement plan for the Furnace Deferred Loans Project which is similar to that of Ramsey Action Program's Deferred Loan Project.
3. Within 90 days, NSP shall submit a detailed status report of the ERC's projects. The report shall include, at a minimum:
 - a. Evaluation of fees charged for each service;
 - b. Evaluation of marketing and operating expenses;
 - c. Project activity levels; and
 - d. Energy savings, by project, to the extent that they are quantifiable.

The evaluation shall address the appropriateness of the above items and make recommendations for improvement of the projects.
4. Within 90 days, NSP shall submit a report on the role of the City of St. Paul in administering CIP funds.
5. Within 90 days NSP shall submit evidence of the commitment of NSP and the City to joint financing of the ERC, or alternatively, demonstrate why NSP should assume the funding responsibility for ERC which has been discontinued by the City.

6. On or before May 1, 1989, NSP shall file the ERC's Technical Research Project for CIP approval or file detailed financial information demonstrating that no CIP monies are being spent on this project.

7. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)